



Mr Mark Copley
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Dear Sir

Access Reform in Electricity Transmission

Please find attached Airtricity's response to the ARODG Working Group Report and Next Steps document.

As you are aware, Airtricity contributed towards the work of the Group. We acknowledge the effort that has gone into the production of the Report by Ofgem and others. We also welcome and endorse the active facilitation role performed by Ofgem, which has been crucial in moving this key issue forwards.

The purpose of Access Reform is to reduce and where possible, eliminate those elements of the process which present an inappropriate burden on developers. This can be done whilst at the same time ensuring that the interests of consumers are protected. We believe that there is scope for radical reform in the areas of:

- The process of final sums/secured amounts (with particular reference to both magnitude and volatility)
- Time to connect to the system
- More active management of the "Grid queue" to allow projects to proceed in the most efficient manner

The shortfalls associated with the current arrangements have been analysed by the ARODG and potential solutions identified which would balance the interests of the various stakeholders in the access arrangement process. The momentum achieved thus far needs to be maintained, with changes made as quickly as possible. Whilst we acknowledge that some issues may be addressed in parallel with the Main Transmission Price Control Review, this should not prevent action being taken either under current processes, or where the changes are accepted as being consistent with TPCR principles, prior to the implementation of the new Control.

We look forward to contributing to the next steps of the process.

Please do not hesitate to contact me if you require further information or clarification.

Yours faithfully

Robert Longden
UK Regulatory Affairs Manager

Airtricity Response to the ARODG Working Group Report and Next Steps Document.

Introduction

Existing arrangements for provision of access to the transmission system are manifestly not “fit for purpose” and are unnecessarily hindering competition in generation, subsequent benefits to consumers and progress towards Government targets. Radical reform is necessary, as an integral part of the TPCR process, rather than limited changes to existing arrangements. However, in the interim, the current system should be both accelerated and streamlined wherever possible, prior to the implementation of the next Control.

As noted by Ofgem, there are significant improvements that could be made to the access arrangements, which would better facilitate competition and would improve the ability of the transmission companies to plan and deliver new network capacity where it is needed. This is a key issue not only for developers but also for Government objectives, including progress towards the 2010 targets for renewable generation.

The ARODG report represents the distillation of expertise and experience from a wide cross section of stakeholders. It presents and explains potential options to reform and improve the existing arrangements. This response reflects the fact that Airtricity contributed to the ARODG process. We are therefore keen to move on to the next phase of considering how enabling reforms could be implemented in the most effective manner, following this wider consultation exercise.

Ofgem’s Role

Ofgem notes that it’s role is to consider specific proposals for approval at the end of the process, and prior to implementation. We would suggest that it has a wider remit to identify, facilitate and promote changes where these are clearly identified as beneficial, *throughout the process*. Whilst change proposals will need to be developed through the appropriate governance processes, there is an oversight role for Ofgem in ensuring that individual, or cross governance issues do not act as an impediment to progress. The ARODG process represents one strand of the active role Ofgem needs to take to ensure identified beneficial changes are implemented in a timely and effective manner.

Reducing Uncertainty

The current process contains major uncertainties with regard to time. Users need to be given firm assurances with regard to defined timetables for access rights to be provided. Airtricity supports the “Connect and Manage” approach, has been detailed by the BWEA on numerous occasions and put forward for consideration by the ARODG . This provides an acceptable way forward which recognises the issues faced by transmission companies but also balances this against the legitimate rights of users to expect access to be provided under a reasonable timetable.

A central element of this approach is to decouple the provision of access for an individual project, from the provision of wider system reinforcement works.

Users would then have more certainty with regard to provision of the “local” or specific infrastructure required to connect them or the “cluster” in which they were placed and their accompanying access rights. The choice of wider system reinforcements or other mechanisms to

provide “deep” reinforcement is a complex issue and one which transmission companies are best placed to manage and take full responsibility for. This would allow the various planning consents, project construction decisions and local transmission works to be managed effectively.

Currently even where this synchronisation of processes occurs, connection and access is determined by wider system reinforcement considerations, which recognise the provision of (regulated revenue earning) infrastructure as the only solution to overall system management. The consequence is that generation projects that could be operational *and generating* within months are placed in a “queue” for years.

Connect and Manage would confer full access rights on users in line with an agreed timetable, following application for connection and completion of local works.

User Commitment

It is right and proper that potential new users demonstrate their commitment by an appropriate mechanism, in order to ensure that the wider interests of consumers are protected. However, the current arrangements are disproportionate, require a user commitment many times the minimum necessary to ensure only viable projects come forward and act as a barrier to competition. The level of security required from new users ***needs to be significantly reduced*** and the volatility in potential liabilities (e.g. as the composition of a cluster changes) eliminated.

The balance of risk under the current arrangements changes significantly once the project is commissioned (potentially massive financial liabilities on the user fall away, assets are incorporated in the regulatory asset base and ongoing commitment is to a maximum of one year’s TNUoS). As such, there is merit in examining adjusting the post commissioning commitment ***for new users only*** to include a commitment for n years TNUoS charges, which reduces each year following commissioning. (Note the TNUoS figure used as a base for *liability* need not necessarily be that relevant to the particular charging zone, but could be a “standard” figure to cater for the variation of TNUoS charges across the GB system, including negative zones)

During the ARODG process, the possibility of examining the commitment of existing users was explored, on the basis that more accurate information on the projected availability of generation would allow National Grid to more efficiently plan its investments. Whilst there may be merit in examining this, it should not be tied into any process for adjusting the access arrangements for new users of the system.

There are many issues with regard to the future prospects of existing generation. Unlike the system operator or transmission infrastructure provider, generators are exposed to the disciplines, challenges and unpredictability of the competitive market place. The timetables associated with many commercial challenges may be fundamentally inconsistent with a long term commitment towards access charges. This is the reality of a competitive generation market. Indeed, a longer term commitment may actually increase the perceived uncertainty which National Grid experiences and change the commercial dynamic in the generation market to the detriment of consumers. Generators currently supply the best available information, as required under the various industry codes. Any perceived shortfalls should first be addressed by examining what benefits enhanced information provision might bring, and the justification for providing it, prior to pursuing an extended financial commitment option.

The Queue

Ofgem notes the large queue of applications for grid connections. We agree that there is a possibility that some of these projects in the queue might not proceed. However, the suggestion that a commitment to pay for capacity for a longer duration than under present arrangements might assist in enabling the “strongest projects to identify themselves at an early stage” needs to be treated with caution. The current queue is exacerbated by projects which in many cases WILL connect, but which will not be in a position to do so for some years. Due to the sequential nature of the queue, projects which are “after” these in the queue but are able to connect much earlier are prevented from going forward. Attention needs to be directed to finding a solution which recognises the totality of issues faced by a project seeking to connect and allows those projects which can advance in the queue, without detriment to others, to do so, rather than concentrating on further post commissioning security from users.

Of course, the majority of issues thrown up by the current queue system are addressed by the Connect and Manage approach.

Access Products

Considerable work has been and continues to be undertaken to assess the possibility of additional access products. The difficulties of managing generation output with anything other than full firm access (which may of course be profiled) are significant and unlikely to be attractive to the majority of participants. Where access exceeds the capability of the network to accept generation, there will be constraints. We have noted that new generators would only expect full access once local works were complete and after a reasonable notice period. Beyond this time horizon, the network operator should be given the responsibility for managing the network. In parallel with this responsibility, options should be explored to allow additional mechanisms for managing the costs of any constraints which may arise, in order that the balance between increased generation competition and temporary additional constraint costs, yields a net benefit to the consumer.

Governance

The current arrangements for securities required during provision of connection assets (“Final Sums”) and whatever may replace or amend the process, would benefit from having their governance properly codified and integrated with other industry arrangements.